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TESTIMONY BEFORE THE
SENATE REFORMS, RESTRUCTURING AND REINVENTING COMMITTEE
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STATE PRESIDENT, AARP MICHIGAN
May 10, 2011

Thank you for the opportunity to present testimony before the Senate Reforms, Restructuring and Reinventing Committee. My name is Eric J. Schneidewind and I am President of AARP Michigan which has 1.4 million members in this State.

AARP opposes HB 4361 and companion legislation (the legislation) which increases taxes on seniors and the working poor while allowing a $200 million <u>expansion</u> of business tax credits for three reasons:

1. The legislation unfairly burdens seniors and the working poor, many of whom are also seniors, and is not part of a shared effort to improve the overall budget.
2. Services used by seniors and the working poor actually get worse, not better.
3. The legislation uses almost $1.5 billion of new individual taxes by Fiscal 2012-13, most of which are paid by seniors and the working poor, to fund an 82% tax reduction for business that is not guaranteed to produce any new jobs.

For these reasons, the legislation is not fair, it is not justified and it will cause significant hardship for many of your constituents.

Let me amplify on this position.

A. The legislation burdens Michigan seniors and the working poor with the majority of almost $1.5 billion of new individual taxes.[1] Page 2.

Today's retirees living on pensions did not anticipate that they would be burdened with hundreds or thousands of dollars of new taxes. Any individual or couple below age 67 with a substantial pension income will be worse off under the legislation, typically paying hundreds or thousands of dollars of new taxes or losing hundreds of dollars of credits. Unlike people in the workforce who will be employed for years to come, retirees and particularly those in the later years of retirement often have no way to supplement their income to adjust to this increased burden. These aged retirees planned, usually down to the last few dollars, to balance their personal budgets without assuming that they would pay hundreds or thousands of dollars of new taxes.

Under the legislation, all retirees age 67 and over will also be hundreds of dollars worse off because they will lose their special exemption and, in many cases, pay higher property taxes.

For example, two of our members in their 50s took early retirements from the auto industry and teaching profession. Both planned in detail how they would live on the pension that allowed them to retire. Now, each faces an unplanned 4.35% tax on their full retirement benefit. For the average auto worker who receives $32,000 per year (source: Labor Research Association) that tax will amount to over $1400 per year.

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[1] House Fiscal Agency Analysis of House Bills 4361 and 4362 FY 2012-13, April 27, 2011.

These members will also pay at least $100 per year more in taxes when they reach age 65 because the Special Senior Exemption will be eliminated. If they receive dividends or interest, they will pay higher taxes because those exemptions will be eliminated. And finally, they will pay higher taxes because the Homestead Property Tax is being substantially reduced for seniors. <u>For a person with fixed pension income of $30,000 to $40,000 currently in their 50s, it is not difficult to imagine that the total tax increases will exceed $2000 per year by the time they reach age 65</u>.

Our member Carl is 75 years old so his pension would continue to be exempt from State income taxes, but he would pay hundreds of dollars more in State taxes for other reasons. Carl's Senior Exemption will be eliminated raising his taxes $100 per year. Also, Carl's Homestead Property Tax Exemption will be substantially reduced and exemptions of interest and dividend income from taxation will also be reduced. These tax increases will be at least hundreds of dollars per year for retirees age 67 and above.

The working poor, many of whom are senior citizens, are limited to four years of public assistance under the proposed budget. Yet a single working mother employed at a poverty level, minimum wage job would be deprived of a few hundred dollars of tax credits which are tied to her earnings and which, therefore, promote self-sufficiency rather than dependency. The fact that this revenue would be used to fund an 82% tax cut for businesses is simply unfair.[1] Page 3.

In fact, taxpayers receiving pensions and the working poor would pay about 60% of the total $1.477 billion per year in new FY 2012-13 taxes.[1] Page 2. Taxation of pensions increases revenue by $343 million, loss of the $2300 senior special exemption raises taxes $41 million, the loss of the interest, dividend and capital gains deductions raises senior taxes $6 million and a senior pro rata share (at 12%) of the elimination of non-refundable credits or tax increases would be about $12 million.[1] Page 10. Modification of the Homestead Property Tax Credit is estimated to cost seniors about $136 million.[2] This brings total senior tax increases to about $538 million.[1], p. 10, [2]. (See Attachment 1). In addition, the loss of the Earned Income Tax Credit is approximately $350 million net of the $25 credit.[1] Page 10. To disproportionately shift a total of almost $900 million of tax increases onto seniors and the working poor is not fair.

Under the legislation, individual income taxes would increase by almost $1.5 billion and the portion of State General Fund for General Purpose and School Aid Fund monies paid by business would shrink from 11% to 1.6%, an 82% reduction.[3]

A plan that produces these results does not meet any test of fairness or shared sacrifice.

And what Value for Money do seniors and the working poor get for this extraordinary sacrifice?

B. None of the $1.5 billion of increased individual tax revenue is used to improve services or balance the budget.[1]

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[2] Estimate of House Fiscal Agency, 5/5/11.

[3] Governor Rick Snyder's Fiscal Year 2011-12 State Budget Recommendation, Gary Olsen, Public Sector Consultants, February, 2011.

Under the legislation, increased revenue paid by seniors and the working poor does not produce new investment in our crumbling roads and bridges. The proposed budgets decrease funding for local communities and K-12 education which will reduce the quality of local services and schools. These cuts will inevitably result in lower property values for senior citizens or higher local taxes to make up for the cuts. Reductions in funding for Michigan universities will result in higher tuition for our children and grandchildren.

Under the legislation, taxation becomes less fair, with seniors and the working poor paying most of the \$1.5 billion of new individual taxes, yet there is no improvement in services or infrastructure, and no improvement in the overall budget outlook. Who would want to retire in this kind of Michigan? What business would want to locate here even with lower taxes?

C. The legislation uses all tax increases on seniors and the working poor to fund an 82% tax reduction for business.[1] Page 3.

While the share of General Funds and School Aid Funds paid by individuals increases, the share of the total budget paid by business drops from 11% to 1.6%.[3] According to data from the Senate Fiscal Agency, the total business share of State tax collections would be the lowest in the nation.[4]

[4] SFA Analysis of Reliance on Business Taxes Fourth Quarter 2009 – Third Quarter 2010 comparing total tax collections with all current Michigan Business Tax collections as a % and ranking States. I adjusted current collections to levels recommended in the Governor's budget.

While seniors and the working poor immediately pay higher taxes on pension income, businesses are allowed not only to continue but to expand existing credits by $200 million that will end up costing the Treasury about $500 million per year in the 2012 Fiscal Year.[1] Page 2.

Put another way, under HB 4361, seniors would pay $538 million in new taxes to make sure that the entire Michigan business community pays less than $360 million of State taxes.[1] See Attachment 1.

And what about new jobs? The Lieutenant Governor candidly admitted that there are no guarantees that the Governor's business tax cuts will produce new jobs. What happens if another State equals Michigan's tax cuts? What if the Michigan infrastructure and services become so poor that businesses choose not to locate in this State? In that case, Michigan will have higher personal taxes, worse services and no new jobs.

Conclusion

Legislation that requires a 75 year old retiree to pay hundreds of dollars of new taxes to reduce business taxes by 82% is unfair.

Legislation that requires a retired auto worker to pay thousands of dollars of new taxes to give Michigan's businesses the lowest State tax burden in the nation is unfair.

And legislation that raises State taxes on retirees and seniors over $538 million so that the entire Michigan business community's net taxes are less than $360 million cannot meet any known test of fairness, shared sacrifice or good public policy.

Thank You.

Attachment 1

HB 4361 SENIOR TAX INCREASES

1.	Pension Tax	$343 million[1]
2.	Loss of Senior and Unemployed Special Exemption	$41 million[1]
3.	Loss of Senior Interest Exemption	$6 million[1]
4.	Loss of Senior Homestead Property Tax Credits	$136 million[2]
5.	Loss of Miscellaneous Non-Age Based Deductions	$12 million[1, 3]
TOTAL SENIOR TAX INCREASES		$538 million

HB 4361 BUSINESS TAXES

1.	Total Net Business Contribution to Michigan Tax Receipts Under HB 4361 and 4362	$356 million[4]

[1] HFA Analysis of HB 4361, p. 10.

[2] HFA Estimate, 5/5/11.

[3] 12% (Senior % of population) times total.

[4] HFA Analysis of HB 4361, p. 2.